

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SS-15 SP-02 NSC-05 CIAE-00 INR-05

NSAE-00 PA-01 RSC-01 USIA-06 PRS-01 AGR-05 SWF-01

STR-01 AID-05 COME-00 EB-07 FRB-01 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-01 SIL-01 OMB-01 L-02 /078 W

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R 272139Z NOV 74

FM AMEMBASSY TEGUCIGALPA

TO SECSTATE WASHDC 8713

INFO AMEMBUHOY BOGOTA

AMEMBASSY GUATEMALA

AMCONSUL GUAYAQUIL

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY QUITO

AMEMBASSY SAN JOSE

C O N F I D E N T I A L SECTION 1 OF 2 TEGUCIGALPA 5118

E.O. 11652: GDS

TAGS: EAGR, ECON, HO

SUBJECT: BANANAS: STANDARD FRUIT DISCUSSIONS WITH GOH

REF: (A) TEGUCIGALPA 5079 AND (B) TEGUCIGALPA 5099

SUMMARY: A. EMBOFFS HAVE DISCUSSED STANDARD POSITION TAKEN IN MEETING NOV. 22 WITH TWO CABINET OFFICIALS OF FOUR WHO WERE PRESENT (MINISTER OF FINANCE ACOSTA BONILA AND MINISTER OF LABOR FONSECA). PRIMARY PURPOSE OF THAT MEETING WAS TO RESPOND TO FIVE REQUESTS PRESENTED BY STANDARD IN LETTER DATED OCT. 22. QUESTION OF SURCHARGE AROSE AFTER DISCUSSION OF SCHEDULED POINTS. STANDARD ORALLY PROPOSED MODIFICATION OR ELIMINATION OF BANANA SURCHARGE AS NECESSARY CONDITION FOR REESTABLISHING PRODUCTION AT ISLETA PLANTATIONS (SEE REF A). GOVERNMENT'S INITIAL REACTION STRONGLY NEGATIVE. MINFIN STATES ELIMINATION OF SURCHARGE "OUT OF THE QUESTION."

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B. FROM OUR DISCUSSION WITH STANDARD NOV. 22, STANDARD EXPECTS GOVERNMENT TO CONSIDER MODIFICATION OF SURCHARGE POSSIBILITY AND ADVISE COMPANY. FROM OUR DISCUSSIONS WITH MINISTERS PRESENT WHEN MATTER DISCUSSED, GOVERNMENT BELIEVES IT HAS GIVEN CATEGORIC "NO RESPONSE TO STANDARD AND IS AWAITING STANDARD'S DECISION TO REESTABLISH ISLETAS PRODUCTION OR ABANDON THAT AREA. IN LATTER CASE MINFIN STATES GOVERNMENT WILL NEED TO MAKE OTHER ARRANGEMENTS IN ORDER TO REESTABLISH ISLETAS PRODUCTION. THEREFORE, HE HOPES FOR A PROMPT RESPONSE FROM COMPANY.

C. EMBASSY, WITHOUT COMMITMENT TO ANY EXISTING OR SUPPOSED POSITIONS, WILL ATTEMPT TO CLOSE COMMUNICATION BREACH BY INFORMAL CONTACT WITH OFFICIALS OF COMPANY AND GOVERNMENT. END SUMMARY.

1. THE BASIS OF NOV. 22 MEETING WAS STANDARD FRUIT LETTER OF OCT. 22 WHICH PROPOSED FIVE AREAS OF DISCUSSION WITH THE GOVERNMENT. THESE WERE DISCONTINUANCE OF THE TELA/LA CEIBA RAIL SERVICE, ASSISTANCE IN BREAKING A LABOR NEGOTIATION DEADLOCK, A REMOVAL OF THE FIVE PERCENT CONSULAR EXPORT FEE ON BANANAS, MODIFICATION OF PORT AND TRANSPORT SERVICES PROVIDED BY THE GOVERNMENT, AND FINALLY, TERMS OF OPERATION OF APPROX. 2,000 (TWO THOUSAND) ACRES OF LAND WHICH THE COMPANY LEASES FROM THE GOVERNMENT IN THE ISLETAS PLANTATION.

2. CONCERNING THE RAILROAD, THE GOVERNMENT RESPONDED THAT DISCONTINUANCE OF THE SERVICE WOULD BE POLITICALLY INCONVENIENT AT THE PRESENT TIME. CONCERNING THE FIVE PERCENT CONSULAR FEE, THE MATTER WAS TAKEN UNDER CONSIDERATION BY THE MINISTER OF FINANCE WHO NONETHELESS STATED THE OPINION THAT REMOVAL OF THE FEE DUE TO HURRICANE CAUSED DAMAGE WOULD BE IMPOSSIBLE IF DONE FOR ALL HONDURAN EXPORTERS. HE LEFT THE IMPRESSION THAT LITTLE OR NO RELIEF COULD BE EXPECTED. ON LABOR, MINISTER OF LABOR FONSECA ACTED AS INTER-MEDIARY BETWEEN THE UNION AND COMPANY DURING THE WEEK OF NOV. 18, PERSONALLY CONDUCTING NEGOTIATIONS (REF B). ON THE PORTS PROBLEM, ACCOMMODATION WITH THE PORT AUTHORITY IS APPARENTLY POSSIBLE. SOLUTION TO THE LEASE PROBLEM WAS SUGGESTED BY STANDARD IN THE FORM OF A TRADE FOR PROPERTIES

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OWNED BY STANDARD IN OTHER AREAS. THE STANDARD LEASE ON THE ISLETAS ACREAGE EXPIRES JANUARY 1975. THE GOVERNMENT RESPONSE WAS THAT BECAUSE THE ISLETAS AREA IS WITHIN '48(KILO- METERS OF THE OCEAN, NO FOREIGN OWNERSHIP IS PERMITTED. THE GOVERNMENT SUGGESTED THAT AN EXCHANGE BE MADE ON THE BASIS OF A TRADE OF A COMPARABLE AMOUNT OF STANDARD ACREAGE IN RETURN FOR A 19-YEAR LEASE ON THE ISLETAS LAND. THE STANDARD

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EXPIRES IN 19 YEARS.

3. WITH THE ABOVE ISSUES CLARIFIED AND FULLY DISCUSSED,
STANDARD THEN RAISED THE QUESTION OF REMOVAL OF THE BANANA
SURCHARGE OF 25 CENTS PER BOX. THIS SURPRISED THE FOUR

MINISTERS PRESENT AND ELICITED AN OUTBURST OF TEMPER
(ACCORDING TO STANDARD) ON THE PART OF MINISTER OF GOVERNMENT
MELGAR. ACCORDING TO THE MINISTER OF FINANCE, THE OFFHAND
MANNER IN WHICH THE COMPANY RAISED SUCH AN IMPORTANT ISSUE
WAS REGRETTABLE. ADDITIONALLY, THERE WAS NO PRESENTATION OF
SUPPORTATIVE ECONOMIC DATA.

4. AS BACKGROUND, THE GOVERNMENT HAD NEGOTIATED THE 25 CENT
PER BOX SURCHARGE WITH UNITED FRUIT. STANDARD, SOME TIME
DURING THE PAST SUMMER, HAD STATED TO THE GOVERNMENT THAT
WHATEVER AGREEMENT UNITED ACCEPTED WOULD BE SATISFACTORY TO
STANDARD. STANDARD WAS DUE TO PRESENT ITSELF FOR FINAL
DISCUSSIONS WITH THE GOVERNMENT ON ABOUT SEPT. 18 BUT WAS
PREVENTED FROM DOING SO BY THE HURRICANE. THEREFORE STANDARD
HAD NEVER FORMALLY AGREED TO THE 25 CENT PER BOX SURCHARGE,
ALTHOUGH NO DOUBT EXISTED AT THE TIME THAT THEY WOULD.

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OPIC-03 CIEP-01 LAB-01 SIL-01 OMB-01 /078 W

----- 032811

R 272139Z NOV 74
FM AMEMBASSY TEGUCIGALPA
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5. MINISTER OF FINANCE ACOSTA BONILLA STATES THAT ELIMINATION OF THE BANANA SURCHARGE IS OUT OF THE QUESTION. LIKEWISE, HE INSISTS THAT PRODUCTION IN THE ISLETAS AREA MUST CONTINUE, IF NOT BY THE STANDARD FRUIT COMPANY THEN BY SOME OTHER MEANS. ON THE BASIS OF THE COMPANY'S ATTITUDE, MINISTER OF LABOR FONSECA DOUBTS THAT THE COMPANY INTENDS TO CONTINUE LONG IN OPERATIONS IN HONDURAS. HE ADDS THAT COMPANY APPARENTLY ATTEMPTING TO EXPLOIT HURRICANE WEAKENED HONDURAS.

6. THE EMBASSY INTENDS TO CONVEY TO STANDARD AT THE EARLIEST OPPORTUNITY THE GOVERNMENT VIEW THAT IT HAS RESPONDED NEGATIVELY TO THE COMPANY REQUEST FOR REMOVAL OF THE BANANA SURCHARGE AND THAT THE INITIATIVE NOW LIES WITH STANDARD.

7. COMMENT:BIPNJR YRQXS#POSITION IS MORE DIFFICULT BECAUSE OF THE MANNER IT CHOSE FOR PRESENTATION. LIKEWISE STANDARD PRESENTED NO SUPPORTING INFORMATION RELATIVE TO ITS FINANCIAL-
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ECONOMIC ARGUMENT FOR SEEKING TERMINATION OF THE BANANA SURCHARGE. GIVEN THE EXTENSIVE AVAILABILITY OF INTERNATIONAL FINANCIAL INSTITUTION CAPITAL FOR UTILIZATION IN HONDURAN AGRICULTURE, IT APPEARS THAT STANDARD'S TIMING IS UNWISE IF ITS INTENTION IS TO CONTINUE PRODUCING IN THE ISLETAS AREA. THE POLITICAL EFFECTS OF A STANDARD DECISION TO NOT REHABILITATE ISLETAS COULD MILITATE AGAINST THE LONG-TERM INTERESTS OF STANDARD IN HONDURAS. STANDARD TELLS THE EMBASSY IT INTENDS TO REHABILITATE THE COYOLES AREAS WHETHER THE TAX IS REMOVED OR NOT. NONETHELESS, ANTI-COMPANY AND ANTI-FOREIGN INVESTMENT ATTENTION WOULD BE CONCENTRATED ON A NEGATIVE ISLETAS DECISION. AS A FOOTNOTE, THE STANDARD POSITION OF NOV. 22 APPEARS TO THE EMBASSY TO BE A CHANGE FROM THE POSITION TAKEN IN EARLIER DISCUSSIONS WITH EMBASSY OFFICERS. NEITHER THE EMBASSY NOR THE IBRD TEAM HAD UNDERSTOOD THAT STANDARD REHABILITATION PROGRAM DEPENDED UPON REMOVAL OF THE BANANA SURCHARGE. THIS LEADS US TO CONJECTURE THAT SOME CONDITIONS HAVE SIGNIFICANTLY CHANGED AFFECTING COMPANY THINKING, PERHAPS THE SELLING PRICE OF BANANAS IN THE U.S. MARKET AND REDUCED CONSUMPTION IN THE EUROPEAN MARKET. IN ANY EVENT, THE ISSUE IS OF SUCH MAGNITUDE THAT THE EMBASSY CONSIDERS IT ABSOLUTELY NECESSARY THAT THE COMPANY MAKE A FORMAL PRESENTATION WITH ALL SUPPORTATIVE EVIDENCE TO THE GOH RELATIVE TO THE ISLETAS PROBLEM. WE DO NOT CONSIDER THAT THE ISSUE IS CAST IN CONCRETE EVEN THOUGH THE GOH MAY

NOT REMOVE THE SURCHARGE. OTHER ACCOMMODATIONS MAY BE
POSSIBLE ON BOTH SIDES.
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NOTE BY OCT: TEGUCIGALPA 5118 #AS RECEIVED.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BANANAS, BUSINESS FIRMS, DIPLOMATIC DISCUSSIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 27 NOV 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: boyleja
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974TEGUCI05118
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740347-0692
From: TEGUCIGALPA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t1974116/aaaaaenv.tel
Line Count: 227
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: (A) TEGUCIGALPA 5079 AND (B) TEGUCIG, ALPA 5099
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 11 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <11 SEP 2002 by elyme>; APPROVED <17 MAR 2003 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BANANAS: STANDARD FRUIT DISCUSSIONS WITH GOH
TAGS: EAGR, ECON, HO, US, STANDARD FRUIT
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005